

Message Text

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INFO OCT-01 ISO-00 SSO-00 NSCE-00 INRE-00 ERDA-05 AID-05

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FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03

EA-06 IO-10 NEA-09 OPIC-03 LAB-04 SIL-01 PA-01 PRS-01

USIE-00 AF-06 ARA-06 ERDE-00 EURE-00 TAR-01 /134 W

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TO SECSTATE WASH DC IMMEDIATE 6700

C O N F I D E N T I A L SECTION 01 OF 02 OECD PARIS 10257

FOR FSE (BOSWORTH)

E.O. 11652: GDS

TAGS: ENRG, OECD

SUBJECT: IEA: BACKGROUND DOCUMENTS FOR APRIL 28-30

SLT MEETING

BEGIN TEXT

DEFINITION OF THE TERM "OIL"

1. THE GOVERNING BOARD'S DECISION AT ITS FIFTH MEETING REFERS JUST TO "OIL" (IEA/GB(75)17 ANNEX 1). THIS TERM REQUIRES FURTHER INTERPRETATION.

I. DIFFERENT TYPES OF CRUDE OIL

2. THERE EXIST A LARGE NUMBER OF DIFFERENT TYPES OF CRUDE OIL WHICH ARE USUALLY TRADED AT DIFFERENT PRICE LEVELS. THIS FACT SHOULD NOT BE NEGLECTED. IT COULD
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BE TAKEN INTO ACCOUNT BY ESTABLISHING A SPECIAL MINIMUM

PROTECTED PRICE LEVEL FOR EACH TYPE OF CRUDE OIL; OR

3. BY ESTABLISHING A MINIMUM PROTECTED PRICE LEVEL ONLY FOR ONE TYPE OF CRUDE OIL (I.E. MARKA CRUDE) AND SETTING UP A MUTUALLY AGREED SYSTEM OF DEDUCTIONS AND MARK-UPS FOR ALL OTHER TYPES OF CRUDE OIL.

4. THERE APPEARS TO BE NO SUBSTANTIVE DIFFERENCES BETWEEN THESE TWO APPROACHES. THE SECOND WAY, HOWEVER, HAS THE ADVANTAGE OF SEPARATING THE POLITICAL DECISION ON THE LEVEL OF THE COMMON PROTECTED MINIMUM PRICE FROM THE TECHNICAL QUESTION OF PRICE RELATIONSHIPS BETWEEN DIFFERENT TYPES OF CRUDE OIL.

II. PRODUCTS REFINED OUTSIDE IEA AREAS

5. IN ORDER TO BE EFFECTIVE THE COMMON MINIMUM PRICE WILL HAVE TO BE EXTENDED TO PETROLEUM PRODUCTS: CHEAP PRODUCTS REFINED OUTSIDE THE IEA AREA ON THE BASIS OF LOW COST NON-IEA CRUDE OIL COULD DISRUPT PRICES IN THE IEA AREA. JUDGING BOTH FROM PLANS ALREADY IN THE COURSE OF IMPLEMENTATION, AS WELL AS STATEMENTS ABOUT FUTURE POLICIES, A SIZEABLE SURPLUS REFINING CAPACITY MAY BE EXPECTED TO BE BUILT UP IN OPEC COUNTRIES IN THE NEXT FIVE OR TEN YEARS.

6. THE EXTENSION OF PROTECTION OF PETROLEUM PRODUCTS RAISES THE FOLLOWING MAIN PROBLEMS:

A. CONFLICTS WITH EXISTING TRADE ARRANGEMENTS

7. A POSSIBLE CONFLICT EXISTS WITH REGARD TO FREE TRADE ARRANGEMENTS BETWEEN EEC AND OPEC COUNTRIES (ALGERIA, LIBYA, NIGERIA, GABON), AS WELL AS THE GENERALISED SYSTEM OF PREFERENCES, CONCEDED BY MOST IEA COUNTRIES TO ALMOST ALL DEVELOPING COUNTRIES (INCLUDING OPEC MEMBERS).

B. EVALUATION OF IMPORTED PRODUCTS

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8. THE PRICE OF PRODUCTS IMPORTED FROM OUTSIDE THE IEA AREA MUST BE CONVERTED INTO A CRUDE OIL EQUIVALENT PRICE, IN ORDER TO PERMIT COMPARISON WITH THE COMMON PROTECTED PRICE LEVEL FOR CRUDE OIL. ELEMENTS OF THIS CONVERSION MIGHT BE THE REFINING COST AND THE PRODUCT PRICES IN THE INDIVIDUAL IEA COUNTRIES. NEITHER OF THE TWO ELEMENTS IS SUFFICIENT, IF USED IN ISOLATION. THEY COULD BE COMBINED AS FOLLOWS:

- EACH IEA MEMBER COUNTRY CALCULATED THE AVERAGE REFINING COSTS PER BBL CRUDE OIL;
- EACH IEA MEMBER IDENTIFIES WHICH SHARE OF THESE REFINING COSTS IS ASSIGNED, ON THE AVERAGE, TO WHICH PRODUCT.

9. THE RESULTING REFINING COST FOR THE SEVERAL PRODUCTS

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C O N F I D E N T I A L SECTION 02 OF 02 OECD PARIS 10257

BE DEDUCTED FROM THE PRICE OF IMPORTED PRODUCTS TO GET THE CRUDE OIL EQUIVALENT PRICE.

C. TREATMENT OF PRODUCTS REFINED OUTSIDE IEA AREAS AND OUTSIDE OPEC AREAS

10. WHILE THERE MIGHT BE A WAY TO ASCERTAIN THE ORIGIN OF CRUDE OIL IMPORTED FROM NON-IEA NON-OPEC COUNTRIES, IT SEEMS TO BE NEARLY IMPOSSIBLE TO CONTROL OIL PRODUCTS

CROSSING THE BORDER INTO AN IEA COUNTRY FROM OUTSIDE THE IEA AREA AS TO THE ORIGIN OF THE CRUDE OIL, FROM WHICH THE INCOMING PRODUCT IS REFINED. THIS MIGHT BE REGARDED AS A STRONG ARGUMENT FOR EQUAL TREATMENT OF OPEC AND NON-OPEC/NON-IEA PRODUCTS.

III. PRODUCTS REFINED IN THE IEA AREA.

11. THERE ARE TWO ALTERNATIVES TO SOLVE THE PROBLEMS
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ARISING FROM PRODUCTS REFINED IN THE IEA AREA SUCH AS
THE FOLLOWING

- BALANCE OF INTERESTS BETWEEN REFINING IEA COUNTRIES AND PRODUCTS-IMPORTING IEA COUNTRIES;
- COMPETITIVENESS OF IEA REFINERIES IN NON-IEA MARKETS.

ALTERNATIVE A

12. ALL CRUDE OILS ARE TO BE AVAILABLE TO REFINERIES IN THE IEA AREA AT A PRICE CONSISTENT WITH THE SCHEME (INDIGENOUS CRUDE OIL MIGHT BE BELOW THE COMMON LEVEL OR ANY OTHER FOREIGN CRUDE OILS WHICH ARE NOT REGARDED AS IMPORTED OIL MIGHT BE ALSO BELOW THE COMMON LEVEL). IN THIS ALTERNATIVE, CIRCULATION OF PRODUCTS WITHIN THE IEA AREA CAN BE MADE WITHOUT ANY CONTROL ON THE BORDERS, SINCE ALL OIL PRODUCTS FLOWING OUT OF IEA REFINERIES ARE SUPPOSED TO BE DERIVED FROM CRUDE OIL AT A PRICE CONSISTENT WITH THE SCHEME. HOWEVER, THE GOVERNMENT OF THE COUNTRY IN WHICH THE CRUDE OIL IS REFINED MIGHT, IN THE CASE WHERE "IMPORTED" CRUDE OIL PRICE IS BELOW THE COMMON PROFIT LEVEL, EARN THE INCOME FROM TAXES OR CUSTOMS WHILE THE GOVERNMENT OF THE COUNTRY IN WHICH THE PRODUCTS ARE FINALLY CONSUMED EARNS NOTHING. IEA REFINERIES MIGHT BE IN A POSITION OF DISADVANTAGE IN THE PRODUCTS MARKET OUTSIDE THE IEA. A WAY TO SOLVE THIS PROBLEM MIGHT BE A REIMBURSEMENT SCHEME BETWEEN THE PRODUCTS-EXPORTING IEA COUNTRIES' GOVERNMENTS AND PRODUCTS-IMPORTING IEA GOVERNMENTS, IN THE FIRST CASE, AND BETWEEN HOST GOVERNMENTS AND THE REFINERIES IN THE LATTER CASE.

13. THIS ALTERNATIVE OFFERS THE GREATEST PROSPECT OF MAINTAINING EFFECTIVE COMPETITION IN THE DOMESTIC PRODUCTS MARKET OF THE IEA COUNTRIES AS A WHOLE. FOR EXAMPLE, A TYPE OF PRODUCT WHICH IS USUALLY IN SURPLUS IN ONE IEA COUNTRY WILL BE EXPORTED INTO ANOTHER IEA COUNTRY ON A PRICE BELOW THE LEVEL WHICH MIGHT CORRESPOND TO THE PROTECTED LEVEL OF THIS TYPE OF PRODUCT IF

IT IS IMPORTED DIRECTLY FROM OPEC COUNTRIES, EVEN
THOUGH THE CRUDE PRICE IS NOT BELOW THE COMMON PROTECTED
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LEVEL.

ALTERNATIVE B

L4. EXPORTS OF OIL PRODUCTS EITHER TO OTHER IEA
COUNTRIES OR OUTSIDE IEA COUNTRIES ARE NOT REGARDED
AS TO BE PUT IN THE DOMESTIC MARKET OF THE COUNTRY WHERE
THE REFINERY IS SITUATED. IT IS UP TO PRODUCTS-IMPORT-
ING IEA COUNTRIES TO MAKE SURE THAT PRODUCTS COMING FROM
OTHER IEA COUNTRIES INTO THEIR DOMESTIC MARKET ARE NOT
SOLD BELOW A COMMON LEVEL OF PROTECTION. THIS ALTERNA-
TIVE MAY FIT, IN MOST CASES, TO THE PRESENT WAY OF
TREATMENT OF RE-EXPORTS OF OIL PRODUCTS BUT IT MIGHT
SUFFER A GREAT DIFFERENCE REGARDING THE IDENTIFICATION
OF THE ORIGIN OF THE CRUDE OILS INVOLVED.

15. IT MIGHT ALSO BE IMPOSSIBLE TO FIND OUT WHETHER A
TYPE OF PRODUCT COMING IN FROM ANOTHER IEA COUNTRY IS
DERIVED FROM OPEC OIL OR ANY OTHER CRUDE OIL WHICH IS
NOT REGARDED AS IMPORTED OIL. END TEXT
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